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Press Release

Talk America (ticker: TALK, Exchange: NASDAQ)
News Release - 13-January-2003

Talk America Raises Fourth Quarter Guidance

EBITDA Guidance Raised to \$16 - \$18 Million
Local Line Count Expected to be at Top End of Guidance
Revenue Expected to be Within Guidance
Shareholders' Equity Expected to be Between \$20 and \$25 Million

RESTON, Va.--(BUSINESS WIRE)--January 13, 2003--

Talk America (NASDAQ: TALK), an integrated communications provider, said today that, based on preliminary financial results, it expects fourth quarter EBITDA to be in the range of \$16 - \$18 million (excluding the benefit of certain positive one-time events), exceeding prior guidance of \$14 - \$16 million. In addition, the Company expects billed local lines to be at the top end of its prior guidance of 315,000 - 330,000 lines, bundled revenues to be within the prior guidance of \$48 - \$53 million and long distance revenues to be within the prior guidance of \$27 - \$32 million.

The Company expects to record a non-cash deferred income tax benefit in the fourth quarter 2002 in connection with the reversal of a deferred tax valuation allowance of approximately \$20 million. As a result of this benefit, together with the gain resulting from the previously announced restructuring of the 8% Convertible Notes and income from operations, the Company expects to have positive net worth of between \$20 and \$25 million as of December 31, 2002. In addition, the Company's cash balance at December 31, 2002 was approximately \$33 million.

The Company is scheduled to announce fourth quarter 2002 operating results after the market closes on Tuesday, February 4, 2003. Talk America Senior Management will host a conference call to discuss the quarter at 5:00 p.m. ET on Tuesday, February 4, 2003. The call can be accessed by dialing the following: US 800-621-5340, International 212-748-2718. A replay of the call will be available through 7:00 p.m. ET on February 11, 2003 by dialing the following: US 800-633-8284, International 402-977-9140. The reservation number for the replay is 21107626.

Additionally, a live web simulcast of the conference call will be

EXHIBIT

1.5

available online at www.talk.com and www.streetevents.com.

About Talk America

Talk America is an integrated communications provider marketing a bundle of local and long distance services to residential and small business customers utilizing its proprietary "real-time" online billing and customer service platform. Talk America has added local service to its offerings, after ten years as a long distance provider. The Company delivers value in the form of savings, simplicity and quality service to its customers based on the efficiency of its low-cost, nationwide network and the effectiveness of its systems that interface electronically with the Bell Operating Companies. For further information, visit the Company online at: www.talk.com.

Please Note: Certain of the statements contained herein may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are identified by the use of forward-looking words or phrases, including, but not limited to, "estimates," "expects," "expected," "anticipates," "anticipated," and "targets". These forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Forward-looking statements involve risks and uncertainties and the Company's actual results could differ materially from the Company's expectations. In addition to those factors discussed in the foregoing, important factors that could cause such actual results to differ materially include, among others, increased price competition for long distance and local services, failure of the marketing of the bundle of local and long distance services and long distance services under its direct marketing channels and its agreements with its various marketing partners, failure to manage the nonpayment of the Company's bills to its customers for bundled and long distance services, attrition in the number of end users, failure or difficulties in managing the Company's operations, including attracting and retaining qualified personnel, failure of the Company to be able to expand its active offering of local bundled services in a greater number of states, failure to provide timely and accurate billing information to customers, failure of the Company to manage its collection management systems and credit controls for customers, interruption in the Company's network and information systems, failure of the Company to provide adequate customer service, and changes in government policy, regulation and enforcement and adverse judicial interpretations and rulings relating to regulations and enforcement.

For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see the discussions contained in

its Annual Report on Form 10-K for the year-ended December 31, 2001, as amended by its Form 10-K/A filed April 12, 2002 and Form 10-Q for the quarter ended September 30, 2002 and any subsequent filings. The Company undertakes no obligation to update its forward-looking statements.

Contact: _

Talk America

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Chief Financial Officer

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www.talk.com

TALK.com Holding Corp is changing its name to Talk America, Inc. Therefore, in certain jurisdictions service is provided by Talk.com Holding - Corp.

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Service in Alabama, Mississippi, Georgia, Tennessee and certain other jurisdictions is provided by TALK.com Holding Corp. and Access One Communications, Corp.

On February 1st, 2002, the FCC Universal Service Fund (USF) fee increases to 11.5%. This increase is consistent with the industry standard set by AT&T.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

☐ TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM --- TO ---

COMMISSION FILE NUMBER 0 - 26723

TALK AMERICA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

23-2827736
(I.R.S. Employer Identification No.)

12020 SUNRISE VALLEY DRIVE, SUITE 250, RESTON, VIRGINIA
(Address of principal executive offices)

20191
(Zip Code)

(703) 391-7500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

27,296,166 shares of Common Stock, par value of \$0.01 per share, were issued and outstanding as of November 1, 2002.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Sales	\$ 79,133	\$ 126,335	\$ 236,251	\$ 390,560
Costs and expenses:				
Network and line costs	37,792	58,679	115,661	186,397
General and administrative expenses	11,958	20,517	40,166	64,248
Provision for doubtful accounts	2,190	28,888	3,998	79,437
Sales and marketing expenses	6,329	12,123	19,637	68,581
Depreciation and amortization	4,611	10,338	13,483	29,250
Impairment and restructuring charges	--	171,174	--	171,174
Total costs and expenses	63,380	301,739	197,947	599,587
Operating income (loss)	15,753	(175,404)	38,306	(209,027)
Other income (expense):				
Interest income	299	257	482	1,088
Interest expense	(2,568)	(1,518)	(6,941)	(4,644)
Other, net	(106)	(2,501)	(922)	(2,581)
Income (loss) before provision for income taxes	13,378	(179,166)	30,925	(215,164)
Provision for income taxes	--	--	--	--
Income (loss) before extraordinary gain and cumulative effect of an accounting change	13,378	(179,166)	30,925	(215,164)
Extraordinary gain from extinguishments of debt	--	16,867	--	16,867
Cumulative effect of an accounting change	--	--	--	(16,837)
Net income (loss)	\$ 13,378	\$ (162,299)	\$ 30,925	\$ (235,134)
Income (loss) per share - Basic:				
Income (loss) before extraordinary gain and cumulative effect of an accounting change per share	\$ 0.49	\$ (6.82)	\$ 1.14	\$ (8.22)
Extraordinary gain per share	--	0.64	--	0.64
Cumulative effect of an accounting change per share	--	--	--	(1.41)
Net income (loss) per share	\$ 0.49	\$ (6.18)	\$ 1.14	\$ (8.99)
Weighted average common shares outstanding	27,243	26,247	27,217	26,166
Income (loss) per share - Diluted:				
Income (loss) before extraordinary gain and cumulative effect of an accounting change per share	\$ 0.45	\$ (6.82)	\$ 1.09	\$ (8.22)
Extraordinary gain per share	--	0.64	--	0.64
Cumulative effect of an accounting change per share	--	--	--	(1.41)
Net income (loss) per share	\$ 0.45	\$ (6.18)	\$ 1.09	\$ (8.99)
Weighted average common and common equivalent shares outstanding	29,617	26,247	28,501	26,166

See accompanying notes to consolidated financial statements.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,067	\$ 22,100
Accounts receivable, trade (net of allowance for uncollectible accounts of \$11,956 and \$46,404 at September 30, 2002 and December 31, 2001, respectively)	23,628	26,647
Prepaid expenses and other current assets	1,691	1,951
Total current assets	66,386	50,698
Property and equipment, net	68,199	75,379
Goodwill	19,503	19,503
Intangibles, net	9,089	10,169
Other assets	8,113	3,972
	\$ 170,290	\$ 165,221
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 29,763	\$ 43,098
Sales, use and excise taxes	10,478	3,339
Deferred revenue	6,480	10,193
Current portion of long-term debt	15,257	10,344
4.5% Convertible subordinated notes due 2002	--	3,910
Accrued compensation	3,152	1,108
Other current liabilities	6,559	10,081
Total current liabilities	73,889	87,273
Long-term debt:		
Senior credit facility	--	12,500
3% Convertible notes due 2011 (includes future accrued interest of \$28,324 and \$30,982 at September 30, 2002 and December 31, 2001, respectively)	63,102	63,755
12% Senior subordinated notes due 2007	71,681	--
3% Convertible senior subordinated notes due 2007 (includes future accrued interest of \$1,281 at September 30, 2002)	4,103	--
4.5% Convertible subordinated notes due 2002	--	57,934
3% Convertible subordinated notes due 2004	670	13,093
Other long-term debt	42	38
Total long-term debt	139,598	152,370
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock - \$.01 par value, 5,000,000 shares authorized; no shares outstanding	--	--
Common stock - \$.01 par value, 100,000,000 shares authorized; 27,264,911 and 27,150,907 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	273	272
Additional paid-in capital	351,458	351,169
Accumulated deficit	(394,938)	(425,863)
Total stockholders' equity (deficit)	(43,207)	(74,422)
	\$ 170,290	\$ 165,221

See accompanying notes to consolidated financial statements.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

NINE MONTHS-ENDED
SEPTEMBER 30,

2002 2001

Cash flows from operating activities:		
Net income (loss)	\$ 30,925	\$ (235,134)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	3,998	79,437
Depreciation and amortization	13,483	29,250
Impairment and restructuring charges	--	171,174
Cumulative effect of an accounting change for contingent redemptions	--	36,837
Extraordinary gain from restructuring of contingent redemptions	--	(16,867)
Unrealized loss on increase in fair value of contingent redemptions	--	2,372
Gain on legal settlement	(1,681)	--
Loss on sale and retirement of assets	205	116
Other non-cash charges	1,091	77
Changes in assets and liabilities:		
Accounts receivable, trade	(5,979)	(68,200)
Prepaid expenses and other current assets	393	(61)
Other assets	1,622	529
Accounts payable	(13,335)	(7,649)
Deferred revenue	(3,713)	(4,877)
Sales, use and excise taxes	2,139	689
Other liabilities	1,008	4,195
Net cash provided by (used in) operating activities	35,156	(8,112)
Cash flows from investing activities:		
Capital expenditures	(3,011)	(2,784)
Capitalized software development costs	(1,753)	(656)
Acquisition of intangibles	(50)	(154)
Net cash used in investing activities	(4,814)	(3,594)
Cash flows from financing activities:		
Payments of borrowings	(4,170)	(1,347)
Payments of convertible debt	(6,279)	--
Payments of capital lease obligations	(1,022)	--
Payments in connection with restructuring contingent redemptions	--	(3,525)
Exercise of stock options	96	--
Net cash used in financing activities	(11,375)	(4,872)
Net increase (decrease) in cash and cash equivalents	19,967	(16,578)
Cash and cash equivalents, beginning of period	22,100	40,604
Cash and cash equivalents, end of period	\$ 41,067	\$ 24,026

See accompanying notes to consolidated financial statements.

NOTE 1. ACCOUNTING POLICIES

(A) BASIC PRESENTATION

The consolidated financial statements include the accounts of Talk America Holdings, Inc. and its wholly owned subsidiaries, primarily Talk America Inc. (collectively, the "Company"), and have been prepared as if the entities had operated as a single consolidated group since their respective dates of incorporation. All intercompany balances and transactions have been eliminated.

The consolidated financial statements and related notes thereto as of September 30, 2002 and for the three and nine months ended September 30, 2002 and September 30, 2001 are presented as unaudited but in the opinion of management include all adjustments necessary to present fairly the information set forth therein. The consolidated balance sheet information for December 31, 2001 was derived from the audited financial statements included in the Company's Form 10-K, as amended by its Form 10-K/A filed April 12, 2002. These interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as amended by its Form 10-K/A filed April 12, 2002. The interim results are not necessarily indicative of the results for any future periods. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Effective October 15, 2002, the Company's stockholders approved a one-for-three reverse stock split of the Company's common stock, decreasing the number of common shares authorized from 300 million to 100 million. The reverse stock split has been reflected retroactively in the accompanying financial statements and notes for all periods presented and all applicable references as to the number of common shares and per share information, stock option data and market prices have been restated to reflect this reverse stock split. In addition, stockholders' equity (deficit) has been restated retroactively for all periods presented for the par value of the number of shares that were eliminated as a result of the reverse stock split.

(B) RISKS AND UNCERTAINTIES

Future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cash flows and cause actual results to vary materially from historical results include, but are not limited to:

- The Company's business strategy with respect to bundled local and long distance services may not succeed
- Failure to manage, or difficulties in managing, the Company's growth and operations including attracting and retaining qualified personnel and expanding into new markets with competitive pricing and favorable gross margins
- Dependence on the availability and functionality of incumbent local telephone companies' networks as they relate to the unbundled network element platform
- Increased price competition in local and long distance services and overall competition within the telecommunications industry
- Failure or interruption in the Company's network and technology and information systems
- Changes in government policy, regulation and enforcement and/or adverse judicial interpretations and rulings related to regulation and enforcement
- Failure of the marketing of the bundle of the Company's local and long distance services under agreements with its direct marketing channels and its various marketing partners and failure to successfully add new marketing partners
- Inability to adapt to technological change
- Inability to manage customer attrition or turnover and bad debt expense and to lower customer acquisition costs
- Adverse change in the Company's relationship with its vendors or other third party carriers
- Failure or bankruptcy of other telecommunications companies whom the Company relies upon for services and revenues
- Ability to realize the full benefit of the net operating loss carryforwards on future taxable income generated by the Company

Negative developments in these areas could have a material effect on the Company's business, financial condition and results of operations.

CA. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which establishes the impairment approach rather than amortization for goodwill. Effective January 1, 2002, the Company was no longer required to record amortization expense on goodwill, but instead is required to evaluate these assets for potential impairment at least annually and will test for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit.

In order to complete the transitional assessment of goodwill as required by SFAS 142, the Company was required to determine by June 30, 2002, the fair value of the reporting unit associated with the goodwill and compare it to the reporting unit's carrying amount, including goodwill. To the extent a reporting unit's carrying amount exceeded its fair value, an indication would have existed that the reporting unit's goodwill assets may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141, "Business Combinations," to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of 2002. Any transitional impairment charge will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations. The Company completed the transitional assessment of goodwill and determined that the fair value of the reporting unit exceeds its carrying amount, thus goodwill is not considered impaired. Since the fair value of the reporting unit exceeded the carrying amount under the transitional assessment, the Company does not need to perform the second step of the transitional impairment test. The Company determined that it has one reporting unit under the guidance of SFAS 142. The fair value was determined primarily using a discounted cash flow approach and quoted market price of the Company's stock. The amount of goodwill reflected in the balance sheet as of September 30, 2002 was \$19.5 million. The required impairment tests of goodwill may result in future period write-downs.

The following unaudited pro forma summary presents the adoption of SFAS 142 as of the beginning of the periods presented to eliminate the amortization expense recognized in those periods related to goodwill that are no longer required to be amortized. The pro forma amounts for the three and nine months ended September 30, 2001 do not include any write-downs of goodwill that could have resulted had the Company adopted SFAS 142 as of the beginning of the periods presented and performed the required impairment test under this standard.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Net income (loss) as reported	\$ 13,378	\$ (162,299)	\$ 30,925	\$ (235,134)
Goodwill amortization	--	5,502	--	15,955
Adjusted net income (loss)	\$ 13,378	\$ (156,797)	\$ 30,925	\$ (219,179)
Basic income (loss) per share:				
Net income (loss) as reported per share	\$ 0.49	\$ (6.18)	\$ 1.14	\$ (8.99)
Goodwill amortization per share	--	0.21	--	0.61
Adjusted net income (loss) per share	\$ 0.49	\$ (5.97)	\$ 1.14	\$ (8.38)
Diluted income (loss) per share:				
Net income (loss) as reported per share	\$ 0.45	\$ (6.18)	\$ 1.09	\$ (8.99)
Goodwill amortization per share	--	0.21	--	0.61
Adjusted net income (loss) per share	\$ 0.45	\$ (5.97)	\$ 1.09	\$ (8.38)

Intangible assets consisted primarily of purchased customer accounts with a definite life and are being amortized on a straight-line basis over 5 years. The Company incurred amortization expense on intangible assets with a definite life of \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2002, and \$0.8 million and \$3.0 million for the three and nine months ended September 30, 2001. The Company's balance of intangible assets with a definite life was \$8.1 million at September 30, 2002, net of accumulated amortization of \$5.5 million. Amortization expense on intangible assets with a definite life for the next 5 years as of September 30, is as follows: 2003 - \$2.3 million, 2004 - \$2.3 million, 2005 - \$2.4 million and 2006 - \$0.1 million.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects that the provisions of SFAS 143 will not have a material effect on its consolidated results of operations or financial position upon adoption.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 superseded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Adoption of SFAS 144 has had no impact on the Company's consolidated results of operations or financial position.

Effective January 1, 2002, the Company also adopted Emerging Issues Task Force (EITF) 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products is a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's statement of operations and could lead to negative revenue under certain circumstances. Revenue reduction is required unless the consideration relates to a separate, identifiable benefit and the benefit's fair value can be established. The adoption of this issue resulted in a reclassification of approximately \$7.3 million from sales and marketing expenses to a reduction of net sales for the nine months ended September 30, 2001 attributed to direct marketing promotion check campaigns. The adoption of EITF 01-09 did not have a material effect on the Company's consolidated financial statements for the three months ended September 30, 2001 and the three and nine months ended September 30, 2002, as the Company did not have any direct marketing promotion check campaigns during these periods.

In May 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statements No. 13, and Technical Corrections as of April 2002." SFAS 145 eliminates the requirement to report gains and losses from extinguishment of debt as extraordinary items. Gains and losses from extinguishment of debt will now be classified as extraordinary items only if they meet the criteria of APB Opinion No. 30. Generally, SFAS 145 is effective in fiscal years beginning after May 15, 2002, with early adoption encouraged. The Company will adopt SFAS 145 effective January 1, 2003. The adoption of SFAS 145 will result in a reclassification from extraordinary gains (losses) from the extinguishment of debt to other income (expense).

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that a liability for a cost that is associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also establishes that fair value is the objective for the initial measurement of the liability. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

NOTE 2. CONVERTIBLE SUBORDINATED NOTES AND EXCHANGE OFFERS

Effective April 4, 2002, the Company completed the exchange of \$57.9 million of the \$61.8 million outstanding principal balance of its 4 1/2% Convertible Subordinated Notes ("4 1/2% Notes") that mature on September 15, 2002 into \$53.2 million of new 12% Senior Subordinated PIK Notes due August 2007 ("12% Notes") and \$2.8 million of new 3% Convertible Senior Subordinated Notes due August 2007 ("3% Notes") and cash paid of \$0.5 million. In addition, the Company exchanged \$17.4 million of the \$18.1 million outstanding principal balance of its 5% Convertible Subordinated Notes ("5% Notes") that mature on December 15, 2004 into \$17.4 million of the new 12% Notes.

The new 12% Notes accrue interest at a rate of 12% per year on the principal amount, payable two times a year on each February 15 and August 15, beginning on August 15, 2002. Interest is payable in cash, except that the Company may, at its option, pay up to one-third of the interest due on any interest payment date through and including the August 15, 2004 interest payment date in additional 12% Notes. The new 3% Notes accrue interest at a rate of 3% per year on the principal amount, payable two times a year on each February 15 and August 15, beginning on August 15, 2002 and are convertible, at the option of the holder, into common stock at \$15.00 per share. The 12% and 3% Notes are redeemable at any time at the option of the Company at par value plus accrued interest to the redemption date, although the AOL Restructuring Agreement restricts the Company's ability to redeem the 12% and 3% Notes (see Note 3). In addition, the Company is not required to make mandatory redemption payments to repurchase the new notes or the 5% Notes in the case of a change of control of the Company or to repurchase the notes on the termination of trading of the Company's common stock on a national securities exchange or established automated over-the-counter trading market.

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the exchange of the 4 1/2% Notes into \$53.2 million of the 12% Notes and \$2.8 million of the 3% Notes is accounted for as a troubled debt restructuring. Since the total liability of \$57.4 million (\$57.9 million of principal as of the exchange date, less cash payments of \$0.5 million) is less than the future cash flows to holders of 3% Notes and 12% Notes of \$91.5 million (representing the \$56.0 million of principal and \$35.5 million of future interest expense), the liability remained on the balance sheet at \$57.4 million as long-term debt. The difference of \$1.4 million between principal and the carrying amount is being recognized as a reduction of interest expense over the life of the new notes.

NOTE 3. AOL AGREEMENTS

On September 19, 2001, the Company restructured its financial obligations with America Online, Inc. ("AOL") that arose under the Investment Agreement entered into on January 5, 1999 and also ended its marketing relationship with AOL effective September 30, 2001 (collectively the "AOL Restructuring"). In connection with the AOL Restructuring, the Company and AOL entered into a Restructuring and Note Agreement ("Restructuring Agreement") pursuant to which the Company issued to AOL \$54.0 million principal amount of its 3% secured convertible notes due September 2011 ("2011 Convertible Notes") and 1,026,209 additional shares of the Company's common stock.

Pursuant to the Restructuring Agreement, in exchange for and in cancellation of the Company's warrants to purchase 907,328 shares of the common stock and the Company's related obligations under the Investment Agreement to repurchase such warrants from AOL, the Company issued the 1,026,209 additional shares of its common stock to AOL, after which AOL holds a total of 2,400,000 shares of common stock. The Company agreed to provide certain registration rights to AOL in connection with the shares of common stock issued to it by the Company.

The Restructuring Agreement provided that the Investment Agreement, the Security Agreement securing the Company's obligations under the Investment Agreement and the existing Registration Rights Agreement with AOL were terminated in their entirety and the parties were released from any further obligation under these agreements. In addition, AOL, as the holder of the 2011 Convertible Note, entered into an intercreditor agreement with the lender under the Company's existing secured credit facility, which survives the early retirement of debt under the Company's Senior Credit Facility (see Note 5).

The 2011 Convertible Notes were issued in exchange for a release of the Company's reimbursement obligations under the Investment Agreement. AOL, in lieu of any other payment for the early discontinuance of the marketing relationship, paid the Company \$20.0 million by surrender and cancellation of \$20.0 million principal amount of the 2011 Convertible Notes delivered to AOL, thereby reducing the outstanding principal amount of the 2011 Convertible Notes to \$34.0 million. The 2011 Convertible Notes are convertible into shares of the Company's common stock at the rate of \$15.00 per share, may be redeemed by the Company at any time without premium and are subject to mandatory redemption at the option of the holder on September 15, 2006 and September 15, 2008. The 2011 Convertible Notes accrue interest at the rate of 8% per year on the principal amount, payable two times a year on January 1 and July 1; interest is payable in cash, except that the Company may elect to pay up to 50% (100% in the case of the first interest payment) of the interest due on any payment date, in kind rather than in cash. The 2011 Convertible Notes are guaranteed by the Company's principal operating subsidiaries and are secured by a pledge of the Company's and the subsidiaries' assets.

In addition to the restructuring of the financial obligations discussed above, the Company and AOL agreed, in a further amendment to their marketing agreement, dated as of September 19, 2001, to discontinue, effective as of September 30, 2001, their marketing relationship under the marketing agreement. In connection with this discontinuance, the Company paid AOL \$6.0 million under the marketing agreement, payable in two installments - \$2.5 million on September 20, 2001 and the remaining \$3.5 million on October 4, 2001. AOL, in lieu of any other payment for the early discontinuance of the marketing relationship, paid the Company \$20 million by surrender and cancellation of \$20 million principal amount of the 2011 Convertible Notes delivered to AOL as discussed above, thereby reducing the outstanding principal amount of the 2011 Convertible Notes to \$34 million. The amendment also provided for the payment by the Company of certain expenses related to marketing services until the discontinuance and for the continued servicing and transition of telecommunications customer relationships after the discontinuance of marketing.

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the AOL Restructuring transaction was accounted for as a troubled debt restructuring. The Company combined all liabilities due AOL at the time of the Restructuring Agreement, including the contingent redemption feature of the warrants with a value of \$34.2 million and the contingent redemption feature of the common stock with a value of \$54.0 million. The total liability of \$88.2 million was reduced by the fair value of the 1,026,209 incremental shares provided to AOL of \$1.4 million and cash paid in connection with the AOL Restructuring of \$3.5 million. Since the remaining value of \$83.3 million was greater than the future cash flows to AOL of \$66.4 million (representing the \$34.0 million of convertible debt and \$32.4 million of future interest expense), the liability was written down to the value of the future cash flows due to AOL and an extraordinary gain of \$16.9 million was recorded in the third quarter of 2001. As a result of this accounting treatment, the Company will record no interest expense associated with these convertible notes in future periods in the Company's statements of operations.

On February 21, 2002, by letter agreement, AOL agreed, subject to certain conditions, to waive certain rights that it had under the Restructuring Agreement with respect to the Company's restructuring of its existing 4 1/2% and 5% Notes. Under the letter agreement, the Company also paid AOL approximately \$1.2 million as a prepayment on the 2011 Convertible Note, approximately \$0.7 million of which was credited against amounts the Company owed AOL under the letter agreement for cash payments in the exchange offers. After giving effect to the prepayment, and taking into account the interest that had been paid on the 2011 Convertible Notes as additional principal, there was outstanding as of September 30, 2002, an aggregate of \$34.3 million principal amount of the 2011 Convertible Notes and the Company complied with the various conditions of the letter agreement and did not owe AOL any additional payments related to the exchange offers.

On January 9, 1999, the Company and AOL entered into an Investment Agreement. Under the terms of the Investment Agreement, the Company agreed to reimburse AOL for losses AOL may incur on the sale of certain shares of the Company's common stock. In addition, AOL also had the right to require the Company to repurchase warrants held by AOL. Upon the occurrence of certain events, including material defaults by the Company under its AOL agreements and a "change of control" of the Company, the Company could have been required to repurchase for cash all of the shares held by AOL for \$78.3 million (\$57 per share), and the warrants for \$36.3 million.

The Company had originally recorded the contingent redemption value of the common stock and warrants at \$73.3 and \$36.3 million, respectively, with a corresponding reduction in additional paid-in capital. In connection with the implementation of EITF 00-19, the contingent redemption feature of the common stock and warrants were recorded as a liability at their fair values of \$93.5 and \$32.3 million, respectively, as of June 30, 2001. The increase in the fair value of these contingent redemption instruments from issuance on January 3, 1999 to June 30, 2001 was \$36.3 million, which has been presented as a cumulative effect of a change in accounting principle in the statement of operations. For the quarter ended September 30, 2001, the Company recorded an unrealized loss of \$2.4 million on the increase in the fair value of the contingent redemption instruments, which was reflected in other (income) expense on the statement of operations. As discussed above, these contingent redemption instruments were satisfied through the Restructuring Agreement entered into with AOL on September 19, 2001.

NOTE 4. LEGAL PROCEEDINGS

In the third quarter of 2002, the Company paid \$140,000 in connection with the favorable settlement of litigation relating to an obligation with a third party that had previously been reflected as a liability, and recorded a non-cash gain in the amount of \$1.7 million.

On November 12, 2001, the Company received an award of arbitrators awarding Traffix, Inc. approximately \$6.2 million in an arbitration concerning the termination of a marketing agreement between the Company and Traffix, which the parties agreed would be paid in two installments - \$3.7 million paid in November 2001 and the remaining \$2.5 million paid on April 1, 2002. The Company's obligations to Traffix have been satisfied.

The Company also is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations. However, it is possible that, because of fluctuations in the Company's cash position, the timing of developments with respect to such matters that require cash payments by the Company, while such payments are not expected to be material to the Company's financial condition, could impair the Company's ability in future interim or annual periods to continue to implement its business plan, which could affect its results of operations in future interim or annual periods.

NOTE 5. SENIOR CREDIT FACILITY

On October 4, 2002, the principal operating subsidiaries of Company retired, prior to maturity, all of the debt outstanding under the Senior Credit Facility Agreement between the subsidiaries and MCG Finance Corporation ("MCG"). Accordingly, the entire principal balance as of September 30, 2002 of \$13.8 million has been reflected in the current portion of long-term debt. The Senior Credit Facility Agreement was secured by a pledge of all of the assets of the subsidiaries of the Company that were a party to the Senior Credit Facility Agreement. In addition, the Company had guaranteed the obligations under the Senior Credit Facility Agreement. The Senior Credit Facility Agreement subjected the Company and its subsidiaries to certain restrictions and covenants related to among other things, liquidity, per-subscriber-type of revenue, subscriber acquisition costs and interest coverage ratio requirements. As a result of the retirement of the debt under the Senior Credit Facility Agreement, the pledge of assets and the restrictions and covenants under the Senior Credit Facility Agreement were terminated and the Company will incur a one-time, non-cash extraordinary charge to earnings of approximately \$1.1 million in the fourth quarter of 2002, reflecting the acceleration of the amortization of certain deferred finance charges and fees.

The Credit Facility Agreement provided for a term loan of up to \$20.0 million maturing on June 30, 2005 and a line of credit facility permitting such subsidiaries to borrow up to an additional \$30.0 million available through June 30, 2003. The availability of the line of credit facility was subject, among other things, to the successful syndication of that facility. No amounts were outstanding or available under the line of credit facility as of September 30, 2002. Loans under the Credit Facility Agreement bore interest at a rate equal to either (a) the Prime Rate, or (b) LIBOR, plus, in each case, the applicable margin. The applicable margin was 7.0% for borrowings accruing interest at LIBOR and 6.0% for borrowings accruing interest at the Prime Rate. The principal of the term loan was paid in quarterly installments of \$1.25 million on the last calendar day of each fiscal quarter commencing on September 30, 2001.

In connection with the AOL Restructuring, MCG entered into an Intercreditor Agreement with ACL, which survives the early retirement of debt under the Credit Facility Agreement (see Note 3).

NOTE 6. IMPAIRMENT AND RESTRUCTURING CHARGES

In the third quarter of 2001, the Company recorded an impairment charge of \$168.7 million, primarily related to the write-down of goodwill associated with the acquisition of Access One Communications Corp., ("Access One"), a private, local telecommunications service provider to nine states in the southeastern United States. The goodwill was created by purchase accounting treatment of the Access One merger transaction that closed in August 2000. SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," required the evaluation of impairment of long-lived assets and identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management determined that goodwill should be evaluated for impairment in accordance with the provisions of SFAS 121 due to the increased bad debt rate and increased customer turnover, as well as the AOL Restructuring that occurred in the quarter ended September 30, 2001. The Company addressed these operational issues by improving credit quality through credit scoring the existing and future customer base, slowing down growth of new expected customers through decreased marketing, and lowering product pricing. These and other actions taken by the Company resulted in lower current and future projected growth of bundled revenues and cash flows than those originally projected at the time of the Access One merger. The write-down of goodwill was based on an analysis of projected discounted cash flows using a discount rate of 18%, which results determined that the fair value of the goodwill was substantially less than the carrying value.

In September 2001, the Company approved a plan to close one of its call center operations. The Company recorded a charge of \$2.5 million in the quarter ended September 30, 2001 to reflect the elimination of approximately 225 positions amounting to \$1.0 million and lease exit costs amounting to \$1.5 million in connection with the call center closure. The employees identified in the plan were notified in September 2001 and terminated in October 2001. Actual restructuring costs were \$1.9 million, comprised of \$1.2 million of employee severance costs and \$0.7 million of lease termination and other call center closure costs. Accordingly, a \$0.6 million credit was recorded in the statement of operations for the fourth quarter of 2001 for the difference between the original restructuring charge of \$2.5 million and the actual costs incurred of \$1.9 million.

NOTE 7. PER SHARE DATA

Basic earnings per common share is calculated by dividing net income by the average number of common shares outstanding during the period. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive stock options, warrants and convertible bonds. Earnings per share are computed as follows (in thousands):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Income (loss) before extraordinary gain and cumulative effect of an accounting change	\$ 13,378	\$ (179,166)	\$ 30,925	\$ (215,154)
Extraordinary gain	--	16,867	--	16,867
Cumulative effect of an accounting change	--	--	--	(36,837)
Net income (loss)	\$ 13,378	\$ (162,299)	\$ 30,925	\$ (235,134)
Average shares of common stock outstanding used to compute basic earnings per share	27,243	26,247	27,217	26,166
Additional common shares to be issued assuming exercise of stock options and warrants *	2,374	--	1,234	--
Average shares of common and common equivalent stock outstanding used to compute diluted earnings per share	29,617	26,247	28,501	26,166
Income (loss) per share - Basic:				
Income (loss) before extraordinary gain and cumulative effect of an accounting change per share	\$ 0.49	\$ (6.82)	\$ 1.14	\$ (8.22)
Extraordinary gain per share	--	0.64	--	0.64
Cumulative effect of an accounting change per share	--	--	--	(1.41)
Net income (loss) per share	\$ 0.49	\$ (6.18)	\$ 1.14	\$ (8.99)
Weighted average common shares outstanding	27,243	26,247	27,217	26,166
Income (loss) per share - Diluted:				
Income (loss) before extraordinary gain and cumulative effect of an accounting change per share	\$ 0.45	\$ (6.32)	\$ 1.09	\$ (8.22)
Extraordinary gain per share	--	0.64	--	0.64
Cumulative effect of an accounting change per share	--	--	--	(1.41)
Net income (loss) per share	\$ 0.45	\$ (6.18)	\$ 1.09	\$ (8.99)
Weighted average common and common equivalent shares outstanding	29,617	26,247	28,501	26,166

* The diluted share basis for the three and nine months ended September 30, 2001 excludes convertible notes, options and warrants due to their antidilutive effect as a result of the Company's net loss from continuing operations. The diluted share basis for the three and nine months ended September 30, 2002 excludes convertible notes that are convertible into 2.5 million shares of common stock due to their antidilutive effect.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-Q and in the Company's Annual Report on Form 10-K, as amended by its Form 10-K/A filed April 12, 2002 and any subsequent filings. Certain of the statements contained herein may be considered forward-looking statements. Such statements are identified by the use of forward-looking words or phrases, including, but not limited to, "estimates," "expects," "expected," "anticipates," and "anticipated." These forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct.

Forward-looking statements involve risks and uncertainties and the Company's actual results could differ materially from the Company's expectations. In addition to those factors discussed elsewhere in this Form 10-Q (see particularly Note 1(b) of the Notes to the Consolidated Financial Statements) and the Company's other filings with the Securities and Exchange Commission, important factors that could cause such actual results to differ materially include, among others, dependence on the availability and functionality of incumbent local telephone companies' networks as they relate to the unbundled network element platform, increased price competition for long distance and local services, failure of the marketing of the bundle of local and long distance services and long distance services under its agreements with its direct marketing channels and its various marketing partners, failure to manage the nonpayment of amounts due the Company from its customers from bundled and long distance services, attrition in the number of end-users, failure or difficulties in managing the Company's operations, including attracting and retaining qualified personnel, failure of the Company to be able to expand its active offering of local bundled services in a greater number of states, failure to provide timely and accurate billing information to customers, failure of the Company to manage its collection management systems and credit controls for customers, interruption in the Company's network and information systems, failure of the Company to provide adequate customer service and changes in government policy, regulation and enforcement and/or adverse judicial interpretations and rulings relating to such regulations and enforcement. Except as otherwise required by law, the Company undertakes no obligation to update its forward-looking statements.

OVERVIEW

Talk America Holdings, Inc., through its subsidiaries (the "Company"), provides local and long distance telecommunication services to residential and small business customers throughout the United States. The Company has developed integrated order processing, provisioning, billing, payment, collection, customer service and information systems that enable the Company to offer and deliver high-quality, competitively priced telecommunication services to customers.

The Company's telecommunication services offerings primarily include the bundled service offering of local and long distance voice services, which are billed to customers in one combined invoice. Local phone services include local dial tone, local calling plans that include free member-to-member calling, and a variety of features such as caller identification, call waiting and three-way calling. Long distance phone services include traditional 1+ long distance, international and calling cards. The Company uses the unbundled network element platform ("UNE-P") of the incumbent local exchange carriers ("ILECs") network to provide local services and the Company's nationwide network and third party international call termination to provide long distance services. The FCC is currently undertaking its triennial review of local phone competition, including the continued availability of certain unbundled network elements and switching (see "Liquidity and Capital Resources, Other Matters"). The Company attracts new customers through referral programs, direct marketing programs, agent and direct sales, and online partners.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated certain financial data of the Company as a percentage of sales:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Sales	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Network and line costs	47.8	46.4	49.0	47.9
General and administrative expenses	15.1	15.2	17.0	16.4
Provision for doubtful accounts	2.8	22.9	3.8	20.3
Sales and marketing expenses	3.6	9.6	8.3	17.6
Depreciation and amortization	5.8	3.2	5.7	7.5
Impairment and restructuring charges	--	135.5	--	43.8
Total costs and expenses	80.1	238.3	83.8	153.5
Operating income (loss)	19.9	(138.3)	16.2	(53.5)
Other income (expense):				
Interest income	0.4	0.2	0.2	0.3
Interest expense	(3.3)	(1.2)	(2.9)	(1.2)
Other, net	(0.1)	(2.0)	(0.4)	(0.7)
Income (loss) before income taxes	16.9	(141.3)	13.1	(55.1)
Provision for income taxes	--	--	--	--
Income (loss) before extraordinary gain and cumulative effect of an accounting change	16.9	(141.3)	13.1	(55.1)
Extraordinary gain	--	13.3	--	4.3
Cumulative effect of an accounting change	--	--	--	(9.4)
Net income (loss)	16.9%	(128.5)%	13.1%	(60.2)%

QUARTER ENDED SEPTEMBER 30, 2002 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2001.

Sales. Sales decreased by 37.4% to \$79.1 million for the quarter ended September 30, 2002 from \$126.3 million for the quarter ended September 30, 2001, but have increased 1.9% sequentially from \$77.7 million for the quarter ended June 30, 2002.

The Company's long distance sales decreased to \$34.6 million for the quarter ended September 30, 2002 from \$69.4 million for the quarter ended September 30, 2001, and have decreased 9.6% sequentially from \$38.3 million for the quarter ended June 30, 2002. A significant percentage of the Company's revenues were derived from long distance telecommunication services provided to customers who were obtained under the AOL marketing agreement. The Company's decision to focus on the bundled product and the discontinuation of the AOL marketing relationship effective September 30, 2001, together with customer turnover, contributed to the decline in long distance customers and revenues. This decline in long distance customers and revenues is expected to continue so long as the Company continues to focus its marketing efforts on the bundled product. Long distance revenues for the quarter ended September 30, 2002 and September 30, 2001 included non-cash amortization of deferred revenue of \$1.9 million related to a telecommunications service agreement entered into in 1997. Deferred revenue relating to this agreement has been amortized over a five-year period. The agreement and related amortization terminated in October 2002. Long distance revenues are expected to decline to between \$27 and \$32 million in the fourth quarter of 2002 and for the full year 2003 are expected to be between \$80 and \$90 million.

The Company's bundled sales for the quarter ended September 30, 2002 were \$44.5 million compared with \$56.9 million for the quarter ended September 30, 2001, but have increased 13.1% sequentially from \$39.4 million for the quarter ended June 30, 2002. The Company had approximately 276,000 bundled lines as of